

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management discussion and analysis section of the City of Redmond's annual financial report provides a narrative overview of the city's financial activities for and financial position at the end of December 31, 2004. This information should be read in conjunction with the preceding letter of transmittal and the financial statements and notes to the financial statements that follow.

Financial Highlights

- Net assets, the amount by which total assets exceed total liabilities, equaled \$442,970,071 in 2004. A total of 77% or \$342,969,045 of total net assets is invested in capital assets such as streets, land, buildings, and utility pipes. Of the remaining net assets of \$100,001,026, the majority are legally restricted, reserved by city policy for specific purposes, or are the net assets of business-type activities restricted for use by the city's utilities.

The city's net assets increased by \$30,403,662 in 2004. The overall increase was split between governmental activities and business-type activities at \$19,386,127 and \$11,017,535, respectively. Capital assets comprised \$17,415,363 of the total increase with \$6,366,715 of this amount contributed by developers.

In the governmental activities category, net assets not invested in capital assets increased \$1,970,764 or 2.9% in 2004. Net assets restricted for Debt Service and Special Revenue Funds rose \$2,235,797. This increase was offset by a decline of \$265,033 in assets restricted for capital projects. Net assets not invested in capital assets in the business-type activities category increased \$333,209 or 1.1% between 2003 and 2004.

- Governmental fund balances at year end were \$65,158,480, an increase of \$982,974 or 1.6% from the prior year. Of this amount, \$5,030,954 is unreserved and available to fund ongoing activities. \$1,674,975 is legally restricted for debt service and the remaining \$58,452,551 is legally restricted or reserved by city policy for capital projects (\$36,782,719) or Special Revenue Fund purposes (\$21,669,832).

- Unreserved fund balance in the general fund was \$5,007,514, a decrease of \$277,972 from the prior year. An additional fund balance of \$4,566,391 is available in the operating reserve fund to provide the capacity to offset significant downturns and revisions in any general municipal purpose fund in accordance with the city's operating reserve policy.
- Total city debt, excluding special assessment debt, decreased \$3,997,583 from 2003 to 2004. Outstanding bonded debt, loans, and long term contracts at year end totaled \$11,835,971.

Overview of the Financial Statements

The city's basic financial statements are presented in three parts: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Other supplementary information in addition to the basic financial statements is also contained in this report. This section of the management's discussion and analysis is intended to introduce and explain the basic financial statements.

Government-wide financial statements

The government-wide financial statements are designed to give the reader a picture of the financial condition and activities of the city as a whole. This broad overview is similar to the financial reporting of private-sector businesses. The government-wide financial statements have separate columns for governmental activities and business-type activities. Governmental activities of the city include general government (finance, executive, human resources), security (police and fire), physical environment, economic environment, transportation, mental/physical health, and culture and recreation. The city's business-type activities are limited to water/wastewater and stormwater utilities. Governmental activities are primarily supported by taxes, charges for services, and grants while business-type activities are self-supporting through user fees and charges.

The *statement of net assets* presents information on all of the City of Redmond's assets and liabilities, highlighting the difference between the two as net assets. This

statement is similar to the balance sheet of a private sector business. Over time, increases or decreases in net assets may be one indicator of improvement or deterioration in the city's overall financial health.

The *statement of activities* presents information designed to show how the city's net assets changed during the year. This statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. The revenue generated by the specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show how much each function either supports itself or relies on taxes and other general funding sources for support. All activity on this statement is reported on the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed. Items such as uncollected taxes, unpaid vendor invoices for goods or services received during the year, and earned but unused vacation leave are included in the statement of activities as revenue and expenses even though no cash has changed hands.

Fund Financial Statements

The annual financial report includes fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the city's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund type such as the general fund, special revenue funds, and proprietary funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. Funds are often set up in accordance with special regulations, restrictions or limitations. The City of Redmond, like other state and local governments, uses fund accounting to ensure and show compliance with finance-related legal requirements. The city's funds are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions as are reported as governmental activities in the government-wide financial statements. The basis of accounting is different between the governmental fund statements and the government-wide financial statements. The governmental fund statements focus on near term revenues/financial resources and expenditures while the government-wide financial

statements include both near term and long term revenues/financial resources and expenses. The information in the governmental fund statements can be used to evaluate the city's near term financing requirements and immediate fiscal health. Comparing the governmental fund statements with the government-wide statements can help the reader better understand the long term impact of the city's current year financing decisions. To assist in this comparison, reconciliations between the governmental fund statements and the government-wide financial statements are included with the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances.

The City of Redmond maintains twenty-five individual governmental funds. The city's three major governmental funds, the general fund, the advanced life support fund, and the capital improvements program fund are presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are combined into a single column labeled other governmental funds. Individual fund data for each of the other governmental funds can be found in combining statements later on in this report.

The city maintains budgetary control over its operating funds through the adoption of a biennial budget. Budgets are adopted at the fund level and according to state law. A budgetary comparison statement is presented for the general fund and the advanced life support fund as basic financial statements. Other budgetary comparison schedules are included following the other governmental funds' combining statements in this report.

Proprietary funds are used by governments to account for their business-type activities. Business-type activities provide specific goods or services to a group of customers that are paid for by fees charged to those customers. There is a direct relationship between the fees paid and the services received.

The City of Redmond has two types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to account for goods and services provided to citizens. Internal service funds are used to account for goods and services provided internally to various city departments.

Enterprise funds of the city are used to report the same functions presented as business-type activities in the government-wide statements with the fund statements providing more detail than is reported in the government-

wide statements. The enterprise fund statements provide separate information for the city's water/wastewater utility, an Urban Planned Development (UPD) water/wastewater utility outside the city limits, and the city's stormwater utility.

are presented immediately following the required supplementary information.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the city's various functions. The city uses internal service funds to account for its fleet of vehicles, insurance premiums and claims, medical self-insurance, workmen's compensation self-insurance program, and information technology. Internal service funds benefit both governmental and business-type activities and are allocated accordingly in the government-wide statement of activities. Internal service fund assets and liabilities are predominantly governmental and have been included in the governmental activities column of the government-wide statement of net assets.

Fiduciary funds account for assets held by the city in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds are not included in the government-wide financial statements because their assets are not available to support the City of Redmond's activities.

The city has two types of fiduciary funds, a pension fund and agency funds. The accounting for the pension fund is on the accrual basis. Agency funds are custodial in nature and do not include revenues and expenses as they do not measure the results of operations.

Notes to the financial statements

The notes to the financial statements provide additional information that is important to a full understanding of the data in the government-wide and fund financial statements. The notes are located immediately following the basic financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain ***required supplementary information*** concerning the city's progress in funding its obligation to provide pension benefits to certain retired firefighters. Required supplementary information may be found immediately following the notes to the financial statements.

The combining statements for other governmental funds, internal service funds, and agency-type fiduciary funds

Government-wide Financial Analysis**Statement of net assets**

The statement of net assets can serve as a useful indicator of the city's financial position. The City of Redmond's net assets at December 31, 2003 and 2004 total \$413,929,255 and \$442,970,071, respectively. Following is a condensed version of the government-wide statement of net assets for 2004 compared to 2003.

City of Redmond's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 82,109,676	\$ 84,222,468	\$ 33,955,906	\$ 34,339,626	\$ 116,065,582	\$ 118,562,094
Capital assets, net of accumulated depreciation	195,345,393	181,981,391	159,625,169	150,447,478	354,970,562	332,428,869
Total assets	277,455,069	266,203,859	193,581,075	184,787,104	471,036,144	450,990,963
Long-term liabilities	15,142,355	19,515,720	960,497	1,054,143	16,102,852	20,569,863
Other liabilities	9,113,392	12,874,944	2,849,829	3,616,901	11,963,221	16,491,845
Total liabilities	24,255,747	32,390,664	3,810,326	4,671,044	28,066,073	37,061,708
Net assets						
Invested in capital assets, net of related debt	183,981,404	166,566,041	158,987,641	149,666,161	342,969,045	316,232,202
Restricted	18,498,091	40,885,464	-	-	18,498,091	40,885,464
Unrestricted	50,719,827	26,361,690	30,783,108	30,449,899	81,502,935	56,811,589
Total net assets	\$ 253,199,322	\$ 233,813,195	\$ 189,770,749	\$ 180,116,060	\$ 442,970,071	\$ 413,929,255

The largest component of the city's net assets, 77% or \$342,969,045, is its investment in capital assets less any related outstanding debt issued to acquire those assets. These capital assets such as streets, trails, parks, fire and police vehicles, are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending. The city has elected the GASB 34 reporting option to include all general infrastructure of the city acquired or substantially renovated since 1980.

The remaining \$100,001,026 of net assets represents both restricted and unrestricted assets. Approximately 2.5% or \$11,034,816 of the total net assets of the city are legally restricted for general government construction projects such as renovation and construction of sports fields in city parks, street additions/ improvements, and construction of a new fire station on Education Hill. The city attempts to fund its capital construction projects on a pay as you go basis, aggressively pursuing transportation grant funding and cost sharing with developers wishing to construct large projects in the city that impact the transportation system. \$1,674,975 (.4% of total net assets) is restricted for debt service payments. \$5,672,881 of net assets are restricted for special purposes and designated to fund activities such as advanced life support services, tourism activities, park maintenance and operation, and capital construction transfers. A total of \$30,783,108 represents the unrestricted net assets of the city's business-type activities and may only be spent on water/wastewater and stormwater utility activities. Maintenance of utility delivery systems (water lines, pump stations, wells), storm drain flushing, water meter reading, and capital construction projects such as well rehabilitation are examples of utility activities. Of the \$50,835,246 in funds not subject to legal restrictions, \$45,827,732 is reserved for specific activities by city policy. Examples of the net assets reserved by city policy are funds earmarked for equipment replacement, rainy day funds, recreation activities, recycling, capital construction projects funded by general tax revenues, and transportation flow improvements. \$5,007,514 of the city's net assets are unreserved.

At the end of the fiscal year, the City of Redmond reported positive balances in all three categories of net assets, for the government as a whole, as well as for the separate governmental and business-type activities.

Changes in net assets

The changes in net assets table illustrates the increases or decreases in net assets of the city resulting from its operating activities. The City of Redmond's net assets increased approximately \$30.4 million in 2004. The increase was split between the government activities (\$19.4 million) and the business-type activities (\$11 million).

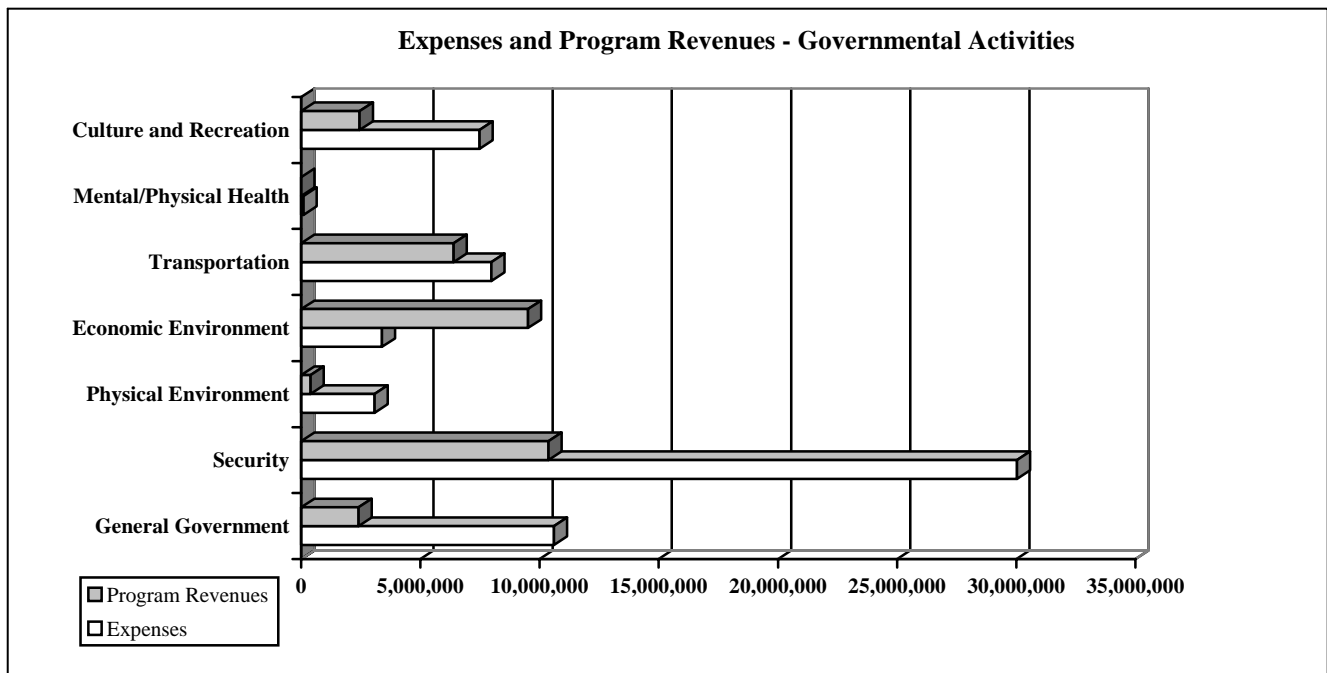
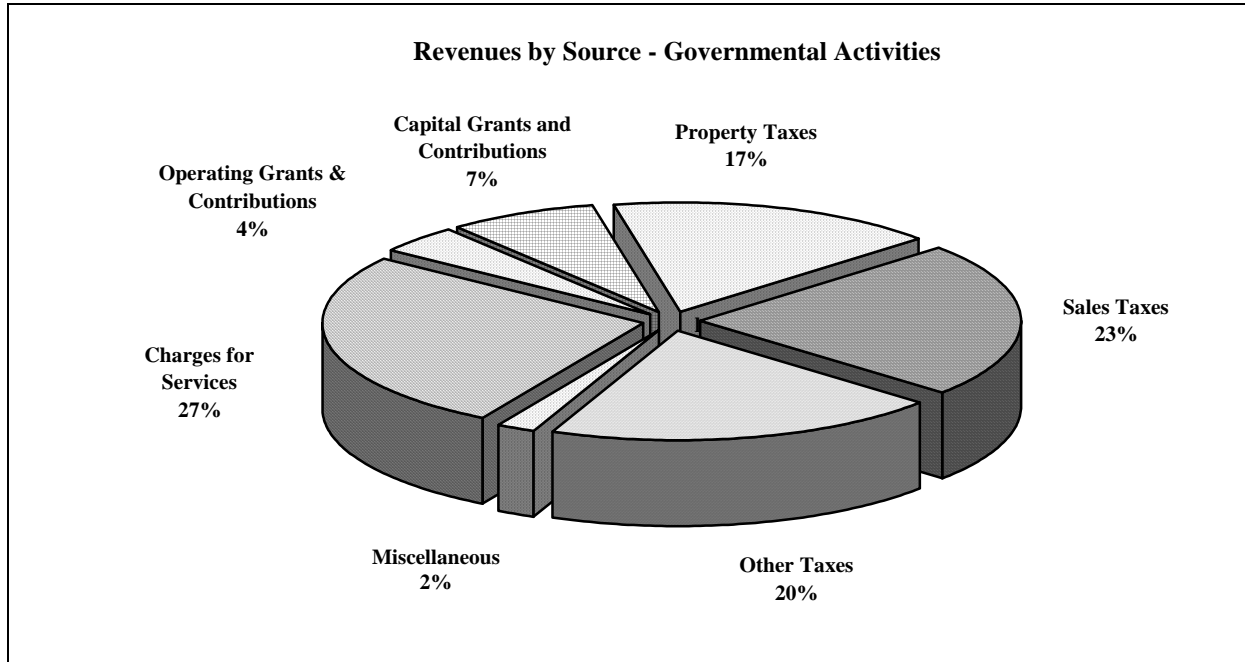
Following is a condensed version of the city's changes in net assets. The table shows the revenues, expenses, and related changes in net assets in tabular form for the governmental activities separate from the business-type activities for 2003 and 2004. The graphs that follow compare program revenues to program expenses and illustrate the revenues by source separately for the governmental and business-type activities for 2004.

City of Redmond's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues						
Charges for services	\$ 22,096,593	\$ 20,051,614	\$ 30,339,948	\$ 27,490,112	\$ 52,436,541	\$ 47,541,726
Operating grants and contributions	3,355,634	2,588,695	29,064	1,285	3,384,698	2,589,980
Capital grants and contributions	6,067,335	5,380,558	7,114,457	12,651,443	13,181,792	18,032,001
General revenues						
Property taxes	13,813,469	13,298,157	-	-	13,813,469	13,298,157
Sales taxes	18,955,381	17,575,204	-	-	18,955,381	17,575,204
Other taxes	16,510,154	16,163,612	-	-	16,510,154	16,163,612
Investment interest	1,118,756	1,681,065	516,727	767,170	1,635,483	2,448,235
Miscellaneous	572,786	916,382	46,845	48,245	619,631	964,627
Total revenues	82,490,108	77,655,287	38,047,041	40,958,255	120,537,149	118,613,542
Expenses:						
General government	10,598,890	10,554,145	-	-	10,598,890	10,554,145
Security	30,031,794	26,710,617	-	-	30,031,794	26,710,617
Physical environment	3,079,888	4,074,430	-	-	3,079,888	4,074,430
Economic environment	3,390,746	3,602,868	-	-	3,390,746	3,602,868
Transportation	7,983,324	8,633,148	-	-	7,983,324	8,633,148
Mental/physical health	94,900	87,644	-	-	94,900	87,644
Culture and recreation	7,489,357	7,779,409	-	-	7,489,357	7,779,409
Interest on long term debt	458,637	747,107	-	-	458,637	747,107
Water/wastewater	-	-	18,339,907	18,323,044	18,339,907	18,323,044
UPD water/wastewater	-	-	3,373,102	2,121,347	3,373,102	2,121,347
Stormwater	-	-	5,292,942	4,799,055	5,292,942	4,799,055
Total expenses	63,127,536	62,189,368	27,005,951	25,243,446	90,133,487	87,432,814
Increases in net assets before transfers and special items	19,362,572	15,465,919	11,041,090	15,714,809	30,403,662	31,180,728
Transfers	23,555	161,292	(23,555)	(161,292)	-	-
Increase in net assets	19,386,127	15,627,211	11,017,535	15,553,517	30,403,662	31,180,728
Net assets – beginning	233,813,195	218,185,984	180,116,060	164,562,543	413,929,255	382,748,527
Prior period adjustment	-	-	(1,362,846)	-	(1,362,846)	-
Net assets - ending	<u>\$253,199,322</u>	<u>\$233,813,195</u>	<u>\$189,770,749</u>	<u>\$180,116,060</u>	<u>\$442,970,071</u>	<u>\$413,929,255</u>

Governmental activities contributed \$19,386,127 of the total change in net assets of \$30,403,662. Key elements of the increase are as follows:

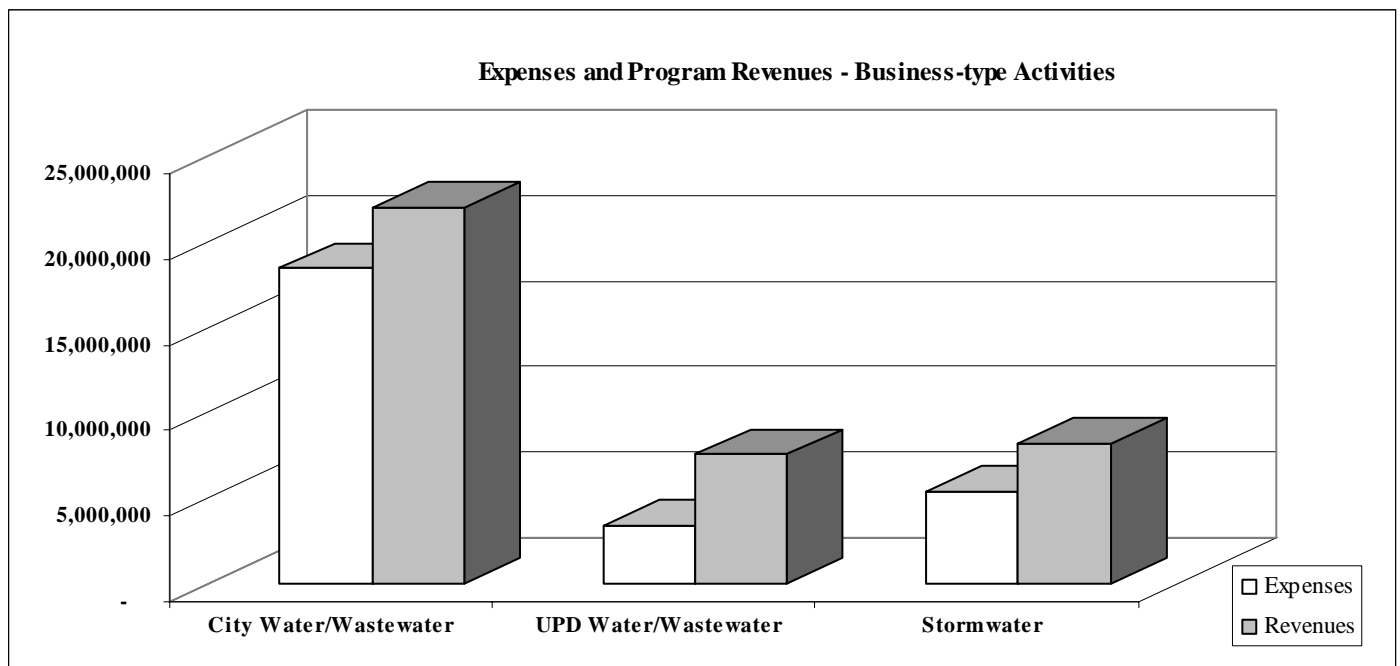
- The city's investment in general government capital assets increased \$17,415,363 from 2003 to 2004. For the same period, the net assets legally restricted or reserved by city policy for capital expenses increased \$1,009,314. Revenues to fund capital assets are recorded as program or general revenues in the statement of activities. The associated construction expenses are not recorded as expenses in the year of construction but rather are allocated to expense over the lives of the assets through depreciation expense. The remaining components of net assets increased by a modest 3% or \$961,450 from 2003 to 2004.
- Ongoing revenue sources to fund basic city operations remained relatively flat in 2004. Cognizant of the low growth in revenues available to fund ongoing activities, the city was aggressive in limiting its operating expenses and ended 2004 in a positive position. Although the city's total net assets outside of capital assets changed very little specific revenues and expenses did experience fluctuations.
- Three of the city's general government revenue sources experienced increases in 2004. Sales taxes, the city's largest single revenue source, at approximately one third of general revenues was up just under 10% at approximately \$1.6 million excluding one time adjustments of \$1.5 million in 2003 and \$1.3 million in 2004 resulting from a Washington State Department of Revenue audit of sales taxes paid by Redmond businesses. Property taxes increased just over \$500,000, primarily from new construction. Development fees, including permits, inspections, and plan review services, rebounded somewhat from 2003 to increase this revenue source \$158,800 or 5%.
- The city's revenues from King County Fire District 34 and from King County for Advanced Life Support services increased \$226,000 and \$519,000, respectively. These increases were matched by commensurate increases in the cost of providing fire and basic life support services in the District 34 service area and advanced life support services to East King County resulting in very little change to the net assets of the city's governmental activities.
- Two revenue sources used to fund ongoing city operations experienced significant decreases in 2004. Interest revenue on the city's investments declined \$562,000 from 2003. Interest rates remained low and the city had less cash available to invest as the city moved ahead with spending on much needed capital projects. The second decrease for 2004 was in miscellaneous revenue, down \$370,000 from 2003. This decrease was due to a one time payment received in 2003 from the city's cable access provider that was not repeated in 2004.
- Overall, governmental activities expenses remained stable with a total increase of \$938,168 or 1.51% from 2003 to 2004. Only the security function, which includes Police and Fire, had a significant increase in expenses at just over \$3.3 million or 12.43% in 2004. This increase resulted from settlement of union contracts going back to 2002 for both Police and Fire. Without the retroactive salary increases, the security function would have experienced little, if any, increase in expenses. The remaining governmental functions had a combined decrease of approximately \$2.4 million. The city recognized early in 2004 that the revenues available to fund general government activities were relatively stagnant and took steps to limit expenses during the year. Vacant positions were left unfilled and outside consultant services were curtailed to ensure expenses would remain at or below the level of available revenues.



Business-type activities of the city's utilities increased the City of Redmond's net assets by \$11,017,535, accounting for 36% of the total growth in the government's net assets.

Key elements of this increase are as follows:

- Capital contributions emerged as a major revenue source for the utilities during the current year, producing over \$7 million in revenue. Capital assets totaling \$3.9 million were contributed by the Redmond Ridge Urban Planned Development (UPD) and another \$1.1 million in capital assets was contributed by other developers. The remaining \$2 million is attributable to connection fees and capital facility charges.
- Water/wastewater operating revenues for 2004 were \$19,683,422, a 7% increase over 2003. This increase was due to increased rates implemented in January 2004 for water and the regional capital facility charges being included in operating revenue. (see Note 13)
- UPD Water/wastewater operating revenues for 2004 were \$3,440,406, a 63% increase over 2003. This increase was due to continued growth in the UPD development and the regional capital facility charges being included in operating revenue.
- Stormwater operating revenues for 2004 were \$7,216,120, a 4% increase over 2003 due to growth within the city and several significant billing adjustments to correct underbilling of revenues in prior years.
- Investment earnings for the business-type activities decreased \$250,443 from 2003 due to lower interest rates.



Financial Analysis of the Government's Funds

As discussed earlier, the City of Redmond uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The purpose of the city's governmental funds is to report on near term revenues/financial resources and expenditures. This information helps determine the city's financial requirements in the near future. In particular, fund balance is a good indicator of the city's resources available at the end of the year.

At the end of the current year the city's combined ending governmental fund balance was \$65,158,480. This was an increase of \$982,974 or 1.5% from the ending fund balance of the prior year. Of the \$65,158,480, a total of \$1,674,975 is reserved for debt service, \$36,782,719 is earmarked for capital construction projects and \$21,669,832 resides with special revenue funds. Significant special revenue fund balances include \$4,978,991 in the operating reserve fund, including general reserves and development reserves, \$3,143,304 in equipment reserve funds, \$4,424,924 in the real estate excise tax fund, and \$4,870,831 in the business license surcharge fund for future transportation projects. Special revenue fund balances are either legally restricted or reserved by city policy for particular purposes.

The general fund is the primary operating fund of the city through which all receipts and payments of ordinary city operations are processed, unless they are required to be accounted for in another fund. Taxes are the major revenue source. At the end of 2004 the fund balance of the general fund was \$5,030,954. As a measure of the fund's liquidity, the ending fund balance is 10.7% of the fund's 2004 expenditures. This meets the city's goal to have a balance sufficient to cover daily financial needs without carrying an excessive balance forward at year end.

The general fund balance decreased \$277,972 from the prior year. Revenues and expenditures rose modestly from 2003 to 2004, increasing 3.6% and 5.9% respectively. Expenditure increases included \$3.2 million for Police and Fire services largely due to settlement of union contracts and accompanying payment of retroactive pay increases for 2002, 2003, and 2004. Revenues exceeded expenditures in the general fund by \$3,804,564 in 2004. In keeping with the city's policy to fund capital

projects on a pay as you go basis, net transfers out of the general fund totaled \$4,082,536, primarily for capital activities.

Taxes are the primary source of revenue in the General Fund, at 71% of the fund's 2004 revenues. Sales tax revenues, the city's largest single revenue source, increased \$1.56 million from 2003 to 2004 excluding one time adjustments of \$1.5 million in 2003 and \$1.3 million in 2004 from audits of sales taxes paid by Redmond businesses. Sales tax revenues increased 10.5% in 2004, a significant improvement over the 1.1% increase experienced in 2003.

Changes of note occurred in several other General Fund revenues. License and permit revenue was down \$603,291 in 2004. In 2003 the city received close to \$450,000 in business license fees and penalties due to an audit that uncovered underreporting of business license fees in prior years. As a result business license revenue in 2004 was about \$450,000 lower than in 2003. In 2003 a new cable franchise agreement included a one time up front payment resulting in increased cable franchise revenue of approximately \$50,000. This one time revenue was not received in 2004. Development revenues were down just over \$100,000 primarily due to commercial building permits. A bright spot in these revenues was plan review fees, up over \$300,000 from 2003 due in part to plan submittals for a grocery store and two large condominium projects.

Prudent management dictates that the city closely monitor expenditures to not exceed revenues and that the impact of any service adjustments be fully evaluated in light of community and organizational goals. The city's largest General Fund expenditure category, at 54% of total expenditures, is security encompassing Police and Fire services. Expenditures in this category were up 14% due to increases resulting from settled Police and Fire union contracts. Culture and recreation expenditures decreased in the General Fund as Community Events were assigned to a separate Special Revenue fund in 2004 for monitoring purposes. Expenditures in the other General Fund categories decreased as positions were left vacant intentionally and the use of outside consultants was curtailed as the city put cost containment measures in place to ensure it lived within its means.

The Advanced Life Support (ALS) Fund's purpose is to account for the cost of providing advanced life support services to several eastside cities and areas of East King County. These services are funded by an Emergency Medical Services property tax levy collected by King

County. As Redmond incurs the costs of providing these services, King County is billed for the services by Redmond. Therefore revenues and expenditures in this fund are relatively equal each year with little or no year ending fund balance. Expenditures for ALS services were approximately \$552,000 or 18% higher than 2003 due to settlement of the firefighters union contract and resulting retroactive salary payments for 2002, 2003, and 2004.

The capital improvements program fund ending fund balance was \$35,764,536, an increase of \$998,473 from 2003. Several factors contributed to this increase as compared to 2003. Revenues and net transfers were down \$653,903 while expenditures were down close to \$5.7 million. The city requires developers to directly contribute to some transportation capital projects if the developers will benefit from the project or their development will greatly impact the city's transportation system. Contributions from developers were up \$1,749,125 in 2004. Capital construction project expenditures were \$5,717,558 lower than in 2003, as several major road projects and park renovations with significant expenditures in 2003 were winding down or completed in 2004. Investment income was down \$627,988 from 2003 due to low interest rates and the lower cash balances available to invest.

Proprietary funds

The City of Redmond's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of the city's proprietary funds have already been addressed in the discussion of the city's business-type activities.

General Fund Budgetary Highlights

The City of Redmond budgets on a biennial basis with each budget beginning in an odd numbered year by state law. The difference between the 2003/2004 biennial budget adopted at the end of 2002 and the final 2003/2004 biennial budget at December 31, 2004 amounts to \$3,039,876.

Revenues increased in the following categories:

- Beginning fund balance increased \$1,662,829 due to a higher than anticipated ending fund balance at December 31, 2002.
- Fire District 34 \$ 350,820

- Interfund charges for services \$ 199,131
- Developer fees \$ 10,000
- Grants \$ 194,164
- Miscellaneous \$ 7,821
- Transfers from other funds \$ 615,111

Expenditure increases occurred in various functional areas and were as follows:

- The \$1,662,829 increase in beginning fund balance funded two expenditure increases. A \$1,512,010 salary and benefit contingency to cover salary increases granted in union contracts was carried over for contracts that were not settled at the end of 2002. Unspent revenues of \$150,819 collected specifically to fund technology improvements and special events were carried over to the 2003/2004 biennium.
- Fire District 34 contributed \$279,350 to fund salaries and benefits for three new firefighter positions and \$71,470 for extra overtime expenditures.
- The increase in interfund charges for services added a charge of \$200,751 to the newly formed Advanced Life Support Fund for services provided by the General Fund and decreased the Stormwater Management Fund's transfer to the General Fund by \$1,620.
- The additional \$10,000 of developer fees will fund overtime for building inspectors when an after hours inspection is requested by a developer.
- Expenditures increased by \$194,164 as a result of receiving grant funding in the Police, Fire, and Planning departments for emergency preparedness, commute trip reduction, and growth management.
- Miscellaneous contributions of \$7,821 will fund website development (\$5,000), youth services (\$2,052), and local law enforcement (\$769).
- Transfers from other funds increased by \$615,111. This consists of \$537,069 from the Operating Reserves Fund, \$18,000 from the Recreation Activities Fund, \$32,190 from the Aid Car Fund and \$27,852 from the Advanced Life Support Fund. These transfers support

various General Fund activities of benefit to the city as a whole.

Capital Asset and Debt Administration

Capital Assets

The City of Redmond's investment in capital assets for its governmental and business-type activities as of December 31, 2004 amounts to \$354,970,562 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, art, construction in progress, utility transmission/distribution systems, roads, and bridges.

Major capital assets changes during 2004 included the following:

- A new aerial ladder fire truck was purchased for the downtown area for \$767,857.
- Land in downtown Redmond, valued at \$972,000, was donated to the city by Safeco Insurance Company.

- General government capital investment street projects were completed at a cost of \$8.2 million.
- General government capital investment projects currently under construction are valued at \$31,497,680. These include development of Perrigo Park, Union Hill road design, and transportation projects in the Overlake area.
- Private developers contributed streets and traffic signals valued at \$250,000.
- Capital assets contributed to the city water/wastewater utility totaled \$1.1 million and \$3.9 million in capital assets were contributed to the UPD water/wastewater utility.
- City utility projects completed in 2004 include improvements to 140th Avenue, West Lake Sammamish Parkway and NE 80th, and restoration of Peters Creek and Sammamish River habitat for a total cost of \$4.6 million.

In February 2004 the city entered into a 30 year capital lease agreement to lease a new city hall and parking garage being constructed by a private developer. Bonds in the amount of \$39,230,000 were issued by the development corporation in April 2004. (See Note 12.)

City of Redmond's Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 42,661,858	\$ 41,273,042	\$ 4,995,515	\$ 5,105,597	\$ 47,657,373	\$ 46,378,639
Buildings/Building Improvements	19,860,457	20,499,236	14,089,509	14,281,352	33,949,966	34,780,588
Improvements other than buildings	7,060,221	7,235,120	133,324,283	125,606,607	140,384,504	132,841,727
Machinery and equipment	9,594,468	8,463,302	457,553	422,354	10,052,021	8,885,656
Construction in progress	31,497,679	25,604,157	6,758,309	5,031,568	38,255,988	30,635,725
Infrastructure	84,383,587	78,696,279	-	-	84,383,587	78,696,279
Art	287,123	210,255	-	-	287,123	210,255
Total	<u>\$ 195,345,393</u>	<u>\$ 181,981,391</u>	<u>\$ 159,625,169</u>	<u>\$ 150,447,478</u>	<u>\$ 354,970,562</u>	<u>\$ 332,428,869</u>

Additional information on the City of Redmond's capital assets can be found in Note 7 of this report.

Long-term debt

At the end of the current fiscal year, the City of Redmond had total bonded debt outstanding of \$9,107,432. Of this amount, \$7,697,432 is general obligation bonds, and \$1,410,000 is special assessment debt with governmental commitment. The Business-Type Activities had no bonded debt outstanding at the end of the current fiscal year.

City of Redmond's Outstanding Debt - General Obligation Bonds

	Governmental Activities		Total	
	2004	2003	2004	2003
General obligation bonds	\$ 7,697,432	\$ 10,933,472	\$ 7,697,432	\$ 10,933,472
Special assessment debt with governmental commitment	1,410,000	1,745,000	1,410,000	1,745,000
Total	<u>\$ 9,107,432</u>	<u>\$ 12,678,472</u>	<u>\$ 9,107,432</u>	<u>\$ 12,678,472</u>

The City of Redmond maintains a AA rating from Standard & Poors and a AA2 rating from Moody's for general obligation debt. Revenue bonds for the Water/Wastewater Utility have been rated A from Standard & Poors and A1 from Moody's. Special assessment bonds are unrated.

Washington State statutes limit the amount of general obligation debt a governmental entity may issue to 7.5% of its total assessed valuation, subject to a 60% majority vote of qualified electors. Of the 7.5% limit, 2.5% is for general purposes, 2.5% for open space/park facilities, and 2.5% for utilities. Non-voted (limited tax) general obligation indebtedness is limited to 1.5% of assessed valuation. The combination of unlimited tax and limited tax general obligation debt for all purposes cannot exceed 7.5% of assessed valuation. The City's assessed valuation for 2004 was \$8,801,575,173 and remaining debt capacity is as follows:

General	\$ 212,051,325
Open Space/Park Facilities	220,039,379
Utilities	220,039,379
TOTAL	<u><u>\$ 652,130,083</u></u>

The total amount of unlimited tax and limited tax general obligation debt the city may issue is \$660,118,138. Additional information on the City of Redmond's long-term debt can be found in Note 11 of this report and in the Statistical Section of the report.

Economic Factors and Next Year's Budgets and Rates

Several factors that affect the economic climate in Redmond were considered when preparing the city's 2005-2006 biennial budget. The outlook for the nation, state and region was weighed in relation to its expected impact on Redmond. The character of the city, including its current and future business activity and its attraction as a place to live, was evaluated. Current financial position and the ability of the city to enhance revenues and thrive under its adopted fiscal policies were also given consideration. Based on these considerations, Redmond's future economic health looks promising.

After three years of decline in aerospace employment, Boeing, one of the largest employers in the Puget Sound region, is adding employees to its workforce. In the high tech arena, Microsoft, the largest employer in Redmond, continues to expand and add to its workforce. Redmond Town Center, a large open air mall, continues to attract new businesses and enjoys a 97% occupancy rate.

Redmond as a place to live has many attractions with parks and open spaces, beautiful landscape, and proximity to employment centers. Evidence of the city's attraction can be seen in residential development which was up significantly in 2004 with no end of the growth in sight for the near future.

Redmond's elected officials have a strong interest in developing and maintaining a vibrant city. To that end the City Council is engaged in planning a long term financial strategy to ensure the city stays well managed and financially healthy. Under consideration to fund city operations and enhance city assets are a levy lid lift, a Park bond for expansion of park land and/or construction of park facilities, and a transportation bond to address mobility in Redmond.

Redmond has a history of excellent financial management and prudent fiscal policies. To that end the city reviews its water/wastewater and stormwater management utility rates as part of the biennial budget process. Rate increases implemented for 2005 as a result of the most recent rate study included a 9.4% increase in sewage treatment charges passed through Redmond by King County Metro for in city residents and residents of the Redmond Ridge Urban Planned Development outside the city limits and a 2% water rate increase for in city residents only. Stormwater rates were unchanged in total although a restriction of part of the rates for capital purposes only was removed. An interim rate study will be conducted in the spring of 2005 to ensure the city's utilities will remain financially healthy should water use restrictions be imposed due to a potential drought caused by an unseasonably dry, warm winter.

Adherence to prudent financial management practices and policies has served the city well and set the stage for a community that will thrive for many years to come.

Requests for Information

This financial report is designed to provide a general overview of the City of Redmond's finances for readers with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional information, may be addressed to the Finance Director, City of Redmond, PO Box 97010, Redmond, WA 98073-9710.